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FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC 9918

C O N F I D E N T I A L COLOMBO 000488

E.O. 12958: DECL: 05/04/2019
TAGS: [KDEM](#) [PREL](#) [EFIN](#) [ECON](#) [PHUM](#) [CE](#)
SUBJECT: SRI LANKA: INTERNATIONAL MONETARY FUND LOAN

REF: A. SECSTATE 41959
[1](#)B. MOORE-OWEN EMAILS 5/01/09
[1](#)C. COLOMBO 449
[1](#)D. COLOMBO 431
[1](#)E. COLOMBO 385
[1](#)F. COLOMBO 285
[1](#)G. COLOMBO 244

Classified By: Charge d'Affaires James R Moore Reasons 1.4 (b)(d)

[1](#)1. (C) Charge delivered ref a points to Senior Presidential Advisor Basil Rajapaksa on April 29 when, in a discussion initially concerning other issues, Rajapaksa said that the U.S. is blocking Sri Lanka's IMF request. Charge and Econ Chief underscored that the U.S. has not threatened publicly or privately to block Sri Lanka's Stand-by Arrangement (SBA) request, and that Ambassador Blake had confirmed the same to Central Bank Governor Nivard Cabraal prior to Cabraal's departure for Fund/Bank meetings in Washington.

[1](#)2. (C) Charge went on to ask the status of the IMF loan, and specifically if the government had submitted its letter of intent (LOI) to the IMF. Rajapaksa at first reported that the government had already done so. However, when questioned what day the LOI was sent, he recanted, noting that he thought it had been submitted. Still later when Econ Chief inquired when the President (who also serves as the Finance Minister) had signed the LOI, he confirmed that the LOI has not yet been submitted.

[1](#)3. (C) Charge again underscored that the U.S. believes the IMF program should be delayed until we can have more confidence that authorities are committed to following through on key fiscal and exchange rate reforms, also noting that we shared our concerns with key IMF members. Rajapaksa said that the government has done all that the IMF has asked, highlighting in particular the government's efforts to raise additional revenue by raising the Nation Building Tax (NBL) from 1 percent to 3 percent and its promise not to interfere with the exchange rate. When asked by Charge about GSL efforts to secure a USD 500 million loan from Libya, Rajapaksa noted that discussions continue. (Note: It was later confirmed that CB Governor Cabraal was en route to Libya to finalize the deal. End note.) He also seemed not to be concerned as to whether or not the GSL eventually secures an IMF SBA, stating that since the government had already taken action, such an SBA would no longer be necessary.

[1](#)4. (C) Charge also shared ref a points with Foreign Secretary Palitha Kohona on April 30. Kohona did not provide any substantive response to Charge.

[1](#)5. (C) Comment: Rajapaksa's lack of information about the status of the request could be attributed to his absence from country; he had just returned from overseas earlier in the day. His lack of understanding of the immediate need for IMF assistance is in line with his limited grasp of macroeconomics and the government's focus on the situation in the north. However, Rajapaksa's inability to point to any concrete expenditure reductions leaves post with concerns that the government may not be ready and willing to move forward with its request to IMF, despite assurances from the Central Bank that the SBA request is on track. Post had planned to reiterate points with Cabraal following his return to country; however, we will now maintain silence until

further guidance on this issue, per ref b.

MOORE